



Action Item

Recommendation: Approve Minutes from February 27, 2009 Services and Finance Committee Meeting of the Technology Services Board

**SERVICES AND FINANCE COMMITTEE
OF THE
TECHNOLOGY SERVICES BOARD
DEPARTMENT OF TECHNOLOGY SERVICES**

PUBLIC MEETING MINUTES

February 27, 2009

The Services and Finance Committee of the Technology Services Board (TSB) met in open session, pursuant to the provisions of the Bagley-Keene Open Meeting Act, at approximately 10:00 a.m. in the Zinfandel Conference Room located at 1325 J Street, 16th Floor, Sacramento, California 95814.

1. Call to Order

Chairperson Teri Takai called the meeting to order at 10:03 a.m.

Roll Call was completed:

1. Teri Takai, State Chief Information Officer (present)
2. Michael C. Genest, Director, Department of Finance
(Designee Richard Gillihan - present)
3. John Chiang, State Controller
(Designee Jim Lombard - present)
4. A. G. Kawamura, Secretary, Department of Food and Agriculture
(Designee Davood Ghods - present)



5. S. Kim Belshé, Secretary, California Health and Human Services Agency
(Designee Crystal Cooper - present)
6. Thomas Johnson, Secretary, Department of Veterans Affairs
(Designee Terry Coyle - present)

2. Approve December 5, 2008 Meeting Minutes – Action Item

There was a motion to adopt the December 5, 2008 TSB Ad Hoc Committee meeting minutes as presented, the motion was seconded, and it was unanimously approved.

3. DTS Annual Financial Audit Report – Action Item

Department of Technology Services (DTS) Director, P.K. Agarwal, reminded the Committee of DTS' statutory requirement to have an independent financial audit and the Committee's role in reviewing the audit reports and recommendations, and to provide the full TSB a recommended action for accepting the reports. Melissa Matsuura, DTS Deputy Director, Administration, stated that DTS has a three-year agreement with Macias Gini & O'Connell (MGO) to perform this annual audit, and introduced Greg Lucido, engagement manager and Certified Public Accountant at MGO. Mr. Lucido provided an overview of MGO's professional reporting responsibilities and requirements. Mr. Lucido stated that MGO issued an unqualified opinion on the financial statements, which means that the financial statements are in conformity with generally accepted accounting principles. In addition, results of compliance testing disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. Mr. Lucido reviewed the status of previous years' recommendations to management on internal controls and operational effectiveness. He answered questions from the Committee before there was a motion to accept the Independent Auditor's Reports. The motion was seconded, and it was unanimously approved.



4. Proposed Policy on Lightly Used Services – Action Item

Director Agarwal provided an overview of a draft policy that will help DTS better align services with an enterprise data center strategy. Currently, some DTS services are used by only a few customers reducing not only DTS' efficiency, but also financially untenable. The policy includes three categories of service as follows:

Category 1 – A general-use service used by a majority of customers.

Category 2 – Services that will have future value to the state.

Category 3 – A service utilized by a few customers, but of little current or future value.

Chairperson Takai requested that a venture capital framework and process be developed for funding Category 2 services. She also requested the roles of the TSB and the Services and Finance Committee to be clarified relative to these services. A general discussion followed regarding how such a model might work. Chairperson Takai requested that DTS provide an overview of the current methodology for initiating New Shared Services at a future TSB meeting. A motion was made to approve the policy, seconded, and unanimously approved.

5. Cannery Relocation Rate Surcharge Alternatives – Discussion Item

Director Agarwal reviewed the rate surcharge discussions from the last Committee meeting where the Cannery relocation rate surcharge was conceptually approved and DTS was asked to work with the Department of Finance (DOF) to look at funding alternatives and options for reducing the \$17.5 million estimated cost. He explained that the real estate market has softened and the owner of the Cannery property is willing to renegotiate terms of the lease to allow DTS to remain at the location. This could result in savings, and when combined with savings from expediting the date when the South Annex is vacated, in addition to the savings that would be realized by staging the building of a new Network, the cost would be reduced to \$2.2 million.



Director Agarwal reviewed the relocation timeframes and rate surcharge on mainframe, network and mid-range services in FY 2009/10 and answered questions from the Committee regarding expenditures, services, equipment, the network, and redundancy. Davood Ghods, Department of Food and Agriculture, recommended that the Committee be prepared to provide the TSB with a list itemizing the differences between \$17.5 million and \$2.2 million in costs. Chairperson Takai noted that there is a continuing risk to operate from the Cannery. Richard Gillihan, DOF, noted that the move is critical to facilitate improved disaster recovery capabilities.

6. FY 2009/10 Rate Package – Action Item

Director Agarwal stated that historically network rates have been subsidized by mainframe rates. With mainframe rates now aligned with costs, there is no surplus to subsidize the network rates. The Committee agreed that there should not be an over collection for some services in order to subsidize other areas, and that service rates must be aligned with costs, a requirement for federal reimbursement. He also discussed the following considerations:

- Need to re-architect and reduce disk storage costs
- Mid-Year 2009/10 target for disk and tape storage rate realignment
- Overall DTS cost reduction by \$14 million

Director Agarwal also reviewed DTS' cash position which, without the increases contained in this rate package, will be inadequate to meet payroll obligations by December 2009. This was followed by a general discussion about customer reactions to rate increases, whether rates are currently too high, rate benchmarking, subsidizations, and the challenges associated with reducing costs. It was noted that the focus should be placed more on a decrease of subsidizations rather than an increase in rates.



Mr. Gillihan suggested looking at ways to provide services more efficiently, and eliminating some services. He also suggested DTS look at other areas that may provide financial relief for departments. Mr. Gillihan stated DOF is recommending that DTS meet with DOF to look at all options, and that the Committee delay taking action on this rate package. There was a motion to schedule a special Services and Finance Committee meeting in two weeks to further discuss the rate package, with an option to delay the next TSB meeting. In addition, a motion was made directing DOF, DTS and the Office of the Chief Information Officer to re-evaluate the best strategies and provide this information at the special meeting. Both motions were seconded, and both unanimously approved.

7. Public Comment

There was no public comment.

8. Meeting Adjournment

The meeting was adjourned at 11:40 a.m.